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# Investment Opportunities in the Student Housing Market

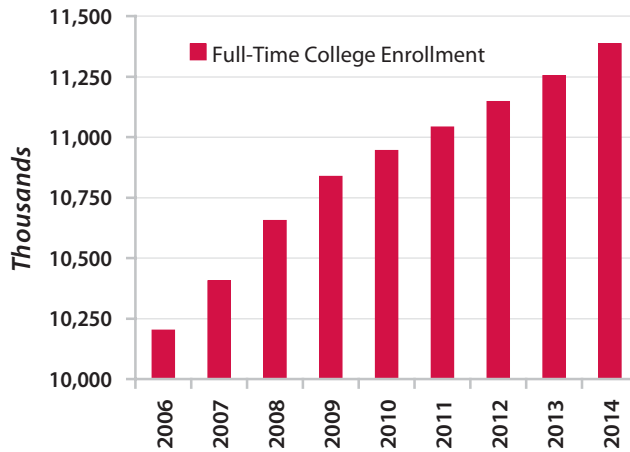
by Daniel J. Hogan, Director

Investors frustrated by low cap rates and high unit prices in the apartment sector may find more attractive opportunities in the growing market for rental properties targeted at the college student population. While the businesses are similar in many respects, acquisition cap rates for institutional quality student housing generally are higher than comparable apartment yields and positive cash-on-cash returns remain the norm. Moreover, the student market is less prone to demand cyclicalities and effective rents are biased upward in harmony with dormitory room and board rates. Consequently, student housing investors often enjoy greater, more consistent cash flows while positioning themselves to benefit from prospective cap rate convergence as market transparency improves. The following report examines some of the larger demographic and investment considerations for prospective student housing investors.

## Student Housing Demographics and Fundamentals

The fundamentals driving student housing demand are compelling. The children of the large Baby Boom generation are reaching the age of majority and will remain a vibrant and growing demographic group through 2015 or longer. Although no greater in number than their parents' cohort, the membership of this new generation, commonly known as the Echo Boom or Generation Y, is considerably more numerous than its predecessor, Generation X, and its impact on markets will be commensurately greater.

Indeed, the American population will contain an average of about 200,000 more 18-year olds in the five-year period ended in 2011 than it did from 2002 – 2006; an increase of about five percent. Trends also suggest that members of Generation Y are more inclined to attend college than prior cohorts, growing total enrollment faster than the young adult population as a whole.



Source: U.S. Department of Education

Moreover, Echo Boomers are more likely to matriculate immediately after graduating from high school than members of Generation X, who were more likely to pursue higher education after a period of full-time work or as part-time students. As a result, the Gen Y student body will contain a higher percentage of “traditional” full-time students without prior experience of independent life. Traditional students are more likely to seek the greater convenience, security and conviviality of on-campus residences or expressly student-dedicated private housing than collegians with more life experience.

By way of numbers, the Department of Education estimates that college enrollment will increase by 1.3 million students from 2006 to 2011. Full-time enrollment, the more relevant figure to the student housing market, will increase 956,000 (8.9 percent) to 11.17 million.